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SUBJECT: BELARUSIAN BANKING'S MIXED BALANCE SHEET

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

#### Summary

1. (C) The Belarusian banking sector continues to grow and generate considerable interest from potential foreign investors. Nonetheless, the ability of banks to drive the Belarusian economy remains limited due to the slowing pace of foreign investment into the sector and the reduced quality of investments. Over-investment into the real estate sector may spell economic troubles ahead. End summary.

#### Banking Sector Posts Impressive Figures

2. (U) Speakers at the December 14 conference "Banks, Capital and Investment for Business and Regions" presented evidence of significant growth in Belarus' banking sector. Anastasiya Nikolayevna Luzgina of the IMF said that in 2007 bank credits more than made up for reduced investment from the government and from firms' own resources. She said long-term loans grew from 20 percent of GDP in 2006 to nearly 40 percent by September 2007. Profitability in the sector stood at a healthy 9.9% and problem loans amounted to just 0.78% of total portfolios, according to Luzgina.

#### Foreign Interest in Banking Sector

3. (U) Algerdas Nikolayevich Tabatadze presented Dutch-owned Home Credit Bank's ambitious plans for expansion. A small retail bank in operation less than two weeks, the bank hopes to expand into the regions and lend to 100 new clients a day. Shirai Takeshi and Denis Deripasko of Sumitomo Mitsui Banking did not mention specific deals, but suggested the bank would look at financing for the energy sector and possibly bring Belarus into the carbon credit matching business. British Charge Nigel Gould-Davies said Belarusbank would soon raise capital through the London Stock Exchange.

#### State Sector Dominance Holds Back Efficiency

4. (U) Despite this interest, Feliks Iosifovich Chernyavskiy, Chair of the Association of Belarusian Banks, complained that the slow growth of foreign investment would limit Belarusian banks. He said foreign investment had grown by only 9% since 2000. State run banks, which still dominate, attracted only 8% more capital this year, versus 10% for private banks. He said banks were keeping salaries and staff training costs down as a result. Finally, Chernyavskiy argued that the effectiveness of investment also left room for improvement,

with each USD 100 of investment now bringing under USD 103 in GDP, down from USD 108 in 2002. Luzgina also called for increasing both the quantity and quality of investment, as well as for creating equal conditions for private banks.

Comment: Quality of Loans More Important than Quantity

15. (SBU) The most interesting comments of the day came from Strategy Research Center Director Leonid Zaiko. Zaiko, not normally the most bearish of economists, said the mortgage crisis could easily come to Belarus. Household borrowing for real estate purchases in 2007 exceeded industrial borrowing. The increased lending drove up prices, and along with increased prices for energy and food risked creating an inflationary wave. The increasingly important role of foreign factors and household spending threatens the GOB's sense of control. He said so far the GOB cannot figure out a strategy to reassert its total dominance over the economy.

STEWART